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Message Text

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17
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 L-03 H-02 NSC-05 SS-15

STR-04 CEA-01 PA-01 PRS-01 /087 W
---------- 007199
R 020825Z FEB 76
FM AMEMBASSY BELGRADE
TO SECSTATE WASHDC 5468
INFO AMCONSUL ZAGREB

LIMITED OFFICIAL USE BELGRADE 657

E.O. 11652: NA
TAGS: ECON EFIN YO
SUBJ: NEW LAW STRIKES AT YUGOSLAVIA'S CHRONIC ILLIQUIDITY PROBLEM

1. SUMMARY: RECENTLY PASSED LAW REQUIRES YUGOSLAV ENTERPRISES TO REGISTER ALL OUTSTANDING DEBTS AND CLAIMS BY JAN 27, 1976, AND HAVE THEM SETTLED BY SEP 30TH. OBLIGATIONS INCURRED AFTER APR 1ST MUST BE SETTLED BY CASH OR BY ISSUANCE OF COMMERCIAL, BANK-GUARANTEED PAPER. MAJOR PURPOSE OF LAW IS TO DEAL WITH CHRONIC PROBLEM OF ENTERPRISE ILLIQUIDITY. BEYOND THIS, LAW STRIKES US AS IMPORTANT STEP TOWARDS STABILIZING ECONOMY AND COULD HAVE SIG-NIFICANT IMPLICATIONS FOR CONTROLLING INVESTMENT, CURBING IN-FLATION AND STIMULATING BETTER ENTERPRISE MANAGEMENT. LAW MAY FORCE SOME SMALLER ENTERPRISES INTO BANKRUPTCY AND SEVERAL REGIONS, ESPECIALLY MACEDONIA AND MONTENEGRO, COULD BE PARTICULARLY EFFECTED. END SUMMARY.

2. YUGOSLAV LAW ON ENSURING PAYMENTS AMONG USERS OF PUBLIC FUNDS IS INTENDED TO (A) DISCIPLINE ENTERPRISE FINANCIAL PRACTICES BY INITIATING MUTUAL CANCELLATION AND SETTLING OF OUTSTANDING DEBTS AND (B) PLACE WORK ORGANIZATIONS' FINANCES ON SOUNDER BASIS BY INTRODUCING NEW DEBT SETTLEMENT MECHANISMS TO REPLACE
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INVOICE SALES. IT STRIKES AT YUGOSLAVIA'S CHRONIC ILLIQUIDITY

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AND ASSOCIATED PROBLEMS OF OVERINVESTMENT AND INFLATION.

3. LAW PROVIDES PERIOD FROM JAN 27, 1976 UNTIL SEP 30,
1976, AS TRANSITION PERIOD TO MUTUALLY CANCEL OR SETTLE OUTSTANDING
DEBTS. NEW PAYMENT SYSTEM IS EFFECTIVE APR 1 AND REQUIRES DEBTS
TO BE SETTLED BY CASH OR ONE OF FOUR FINANCIAL INSTRUMENTS: CHECK,
NOTE WITH GUARANTEE, IRREVOCABLE LETTER OF CREDIT OR PURE GUARANTEE.
ALL OF THESE REQUIRE SOME KIND OF BANK GUARANTEE. THIS
IS ENVISIONED AS BASIS FOR INNOVATION IN YUGOSLAV MONETARY CREDIT
POLICY. THESE INSTRUMENTS ARE TO BE "SHORT-TERM SECURITIES" THAT
CAN BE DISCOUNTED AND REDISCOUNTED BY COMMERCIAL BANKS AND
NATIONAL BANK. ACCORDING TO YUGOSLAV OFFICIALS, THIS WILL MOVE
CONTROL OVER COUNTRY'S MONETARY AND CREDIT POLICY CLOSER TO
WORKING CLASS BY TYING MONEY ISSUANCE TO ACTUAL BUSINESS TRAN-
SACTIONS. (FYI: EDITORIAL IN JAN 26 EKONOMSKA POLITIKA MAKES POINT
THAT NATIONAL BANK'S OBLIGATION TO FINANCE FEDERAL BUDGET DEFICIT
WILL NOT ALLOW SUFFICIENT PRIMARY
ISSUE TO PERFORM THE FUNCTION OF "MONETIZING" THE ECONOMY BY RE-
DISCOUNTING THESE SHORT-TERM SECURITIES. THEREFORE, THIS INNOVATION
MAY HAVE TO BE POSTPONED OR USE OF REDISCOUNT FACILITY DRASTICALLY
LIMITED. END FYI).

4. SINCE 1961, INVOICE SALES, REGARDLESS OF COLLECTABILITY, HAS
BEEN USED AS BASIS FOR DETERMINING ENTERPRISE INCOME AND THERE-
FORE AS BASIS FOR ENTERPRISE WAGE AND INVESTMENT DECISIONS.
THIS LED TO CHRONIC OVERESTIMATION OF ENTERPRISE ASSETS,
CAUSING FIRMS TO UNDERTAKE EXCESSIVE FINANCIAL OBLIGATIONS OFTEN
IN THE FORM OF OVER-INVESTMENT. IN ITS MOST EXTREME FORM,
USE OF INVOICE SALES LED TO A CLOSED BUT EXPANDING CIRCLE OF
CREDIT CREATION AMONG ENTERPRISES THAT MUTUALLY ACCEPTED AND USED
INVOICES AS BASIS FOR EXPANDING OBLIGATIONS. GOVERNOR OF NATIONAL
BANK ONCE TOLD EMBASSY THIS USE OF INVOICE SALES IN EFFECT
MADE ENTERPRISES RIVAL OF BANKING SYSTEM IN "CREATING MONEY"
BUT IN UNDISCIPLINED AND IRRESPONSIBLE MANNER. THIS USE OF
INVOICES ALSO LENT ITSELF TO FRAUDULENT ACCOUNTING AND IN FACT
THIS HAS BEEN CHARGE BROUGHT AGAINST MANY OF SMALL CITIZEN
ENTERPRISES (CALLED GRUPA GRADJANINA -- GG FIRMS) IN EMBEZZLEMENT
CASES DURING PAST YEAR.

5. NEW LAW REQUIRES ENTERPRISES TO REGISTER OUTSTANDING DEBTS
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AND CLAIMS WITH PUBLIC ACCOUTING SERVICE (SDK) BY JAN 27.
SDK HAS ESTIMATED ABOUT 25 THOUSAND ENTERPRISES WHICH PUBLIC
FUNDS ARE INVOLVED AND IN EXCESS OF 800 THOUSAND DEBTS,
TOTALING ABOUT 270 BILLION DINARS WILL BE REGISTERED. SDK
WILL ANALYZE INFORMATION AND MAKE PUBLIC ANNOUNCEMENT OF
SITUATION ON FEB 10. (FYI: MOST ENTERPRISES WAITED UNTIL FINAL
DAY TO REGISTER THEIR DEBTS, THEREBY PLACING VERY HEAVY WORKLOAD
ON SDK. CONSEQUENTLY, DATE OF ANNOUNCEMENT MAY BE DELAYED BEYOND

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FEB 10. END FYI.) DEBTS WILL THEN BE MUTUALLY CANCELLED TO EXTENT POSSIBLE. (NIN JAN 11 ESTIMATED UP TO 40 PERCENT OF OUT-STANDING DEBTS CAN BE WRITTEN OFF IN THIS WAY.) ENTERPRISES WILL HAVE UNTIL MAR 31 TO REACH SETTLEMENT PROGRAM FOR REMAINING DEBTS. JLL DEBTS SHOULD BE SETTLED BY SEP 30. FOR THOSE ENTERPRISES THAT CANNOT REACH DEBT SETTLEMENT PROGRAMS AND/OR CANNOT SETTLE DEBTS BY SEP 30, SDK AND SECRETARY OF FINANCE MAY INTERVENE AND REQUIRE THE ENTERPRIE TO UNDERGO A REHABILITATION PROGRAM OR GO INTO BANKRUPTCY.

6. ENTERPRISE AND REPUBLICAN REACTION TO NEW LAW HAS BEEN MIXED WITH GENERAL RECOGNITION OF ITS IMPORTANCE FOR SOUND BUSINESS OPERATION AND ECONOMIC STABILIZATION BALANCED BY WORRIES ABOUT ITS IMMEDIATE PRACTICAL EFFECTS. IN INTERVIEW WITH PRIVREDNI PREGLED, JAN 26, DIRECTOR OF SDK POLAJNER NOTED LAW WILL REQUIRE NUMBER OF ENTERPRISES TO UNDERGO REHABILITATION OR INTO BANKRUPTCY. POSSIBLE IMPLICATION OF THIS PROVIDED IN JAN 27 BORBA WHICH REPORTED ONE OUT OF EVERY EIGHT ENTERPRISES IN YUGOSLAVIA HAS OPERATED AT A LOSS IN 1975. THIS SITUATION IS SAID TO BE ESPEC-IALLY ACUTE IN MACEDONIA AND MONTENEGRO. BORBA, JAN 19, PRO-VIDED INFORMATION ON ENTERPRISE FINANCIAL PROBLEMS IN MACEDONIA NOTING, INTER ALIA, MACEDONIAN ENTERPRISES HAD 14 BILLION DINARS OBLIGATIONS IN SEP 1975 WHILE SAME ENTERPRISES HAD ONLY 2 BILLION DINARS IN THEIR GIRO ACCOUNTS WITH SDK. EKONOMSKA POLITIKA, JAN 26, CAUTIONED THAT INFLEXIBILITY OF THIS REGULATION WILL BRING MANY ENTERPRISES IN MACEDONIA INTO AN UNFAVORABLE SITUATION.

7. COMMENT: THIS LAW (AND COMPANION LAW ON CALCULATED TOTAL REVENUES AND BASIC ORGANIZATION OF ASSOCIATED LABOR) STRIKES US AS IMPORTANT STEP TO MAKE SOME ORDER OUT OF THE FINANCIAL AND ACCOUNTING CHAOS ENDEMIC IN YUGOSLAV ENTERPRISES. WHILE THEORETICALLY ALL DEBTS SHOULD EVENTUALLY CANCEL OUT IN SENSE
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TOTAL CREDITS AND TOTAL DEBITS SHOULD BE EQUAL, THERE WILL BE INDIVIDUAL WINNERS AND LOSERS IN THE PROCESS AND THE LOSERS WILL UNDOUBTEDLY SEEK HELP. IF PAST EXPERIENCE IS A GUIDE, IT IS THE SMALLER FIRMS THAT WILL BE FORCED INTO BANKRUPTCY WHILE LARGER ENTERPRISES, EVEN THOUGH UNPROFITABLE, WILL HAVE THE POLITICAL CLOUT TO COMMAND ASSISTANCE FROM LOCAL BANKS AND OPSTINAS. AS NIN, JAN 11, PUT IT, "POLITICAL DECISIONS WILL INESCAPABLY HAVE TO DEAL WITH THE QUESTION OF THE EXISTENCE OF A NUMBER OF PROB-LEMATIC ENTERPRISES WHOSE OBLIGATIONS ARE ON THE VERGE OF THE LIMITS AUTHORIZED BY LAW. SWEITZER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LAW, FINANCIAL STABILITY, LIQUIDITY (MONETARY), DEBT REPAYMENTS, BUSINESS FIRMS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BELGRA00657
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760038-0729
From: BELGRADE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760293/aaaaddqw.tel
Line Count: 164
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 20 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 MAY 2004 by ifshinsr>; APPROVED <20 MAY 2004 by morefirh>
Review Markings:

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US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW LAW STRIKES AT YUGOSLAVIA'S CHRONIC ILLIQUIDITY PROBLEM
TAGS: ECON, EFIN, YO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006